



To: California Market Advisory Board  
From: Tropical Forest Group  
Date: June 14, 2007

Dear MAC Board Members Nesbit, Pershing, Sutley, Zapfel, Nation, Litz, Koonin, Hickox, Greenwald, Ezekiel, Dudek, Burtraw, and Bryk.

The Tropical Forest Group ([www.tropicalforestgroup.org](http://www.tropicalforestgroup.org)) is a non-partisan, non-profit organization based and registered in the State of California, whose mission is to help restore and conserve tropical forests. The Tropical Forest Group (TFG) believes that new financial incentives and structures, including carbon markets, are the most effective way to tackle the major ecological problem of tropical deforestation. Tropical deforestation is the leading cause of biodiversity loss, the second leading cause of global GHG emissions, and a major driver of soil erosion, water and air pollution, loss of ecosystem services, and declines in livelihoods for some of the world's poorest rural people.

TFG urges the MAC to recommend to the Air Resources Board that forest conservation and restoration offsets be accepted at the earliest starting point into California's cap-and-trade program, without restriction.

TFG took the request of committee member Bryk at the June 12<sup>th</sup> meeting to heart; we are making our views known in a way to address the design principles in the first draft. We support credible tropical forest conservation and restoration offsets (as recommended in section 6.3.2 of the MAC draft report) into California's system. Credible offsets from tropical forests will promote the design principles for a cap-and-trade program, as explained below.

### **California Cap-And-Trade Principles: The Role of Tropical Forest Offsets**

- 1) ***"Avoid localized and disproportionate..."***. TFG believes this principle should be applied in its broadest sense. Most GHGs have been emitted by developed nations, whereas most global warming damage will be felt by developing countries. Financial incentives to conserve and restore tropical forests through a California-supported offset program will bring relief to communities most negatively impacted by our global warming pollution and who realized none of the attendant benefits (economic growth, development, and infrastructure). Since

- biomass burning in the tropics is also associated with tremendous traditional (non-GHG) air pollution burdens, this principle will most effectively be met by offset initiatives that reduce forest clearing and inefficient indoor biomass burning in developing countries. Sustainable forestry projects linked with improved cook-stove technologies could minimize leakage and maximize air-pollution co-benefits in some of the poorest communities.
- 2) “***Avoid interfering with state air quality standards***”. Offsets carried out in developing countries will clearly not have impacts on state air-quality measures.
  - 3) “***Minimize administrative burdens, maximize environmental benefits for California...***”. Efforts should be made through California legislation and regulations to deliver remedies communities that have felt the greatest brunt of our historical emissions. However, even if the principle is restricted to consider only California impacts, conserving tropical forests delivers a strong supply of co-benefits for “other environmental and public health objectives”. These benefits include conserving species that may be used in future drug remedies (an estimated ¼ of medicinal products are derived from tropical forest, including ones used for Leukemia, Hodgkin’s, and other cancers). Saving and restoring tropical forests delivers enormous co-benefits for other environmental and ecosystem services.
  - 4) “***Be simply designed, easily understood...***”. Contrary to some of the academic literature on the subject, forestry projects are relatively straightforward, easy to explain, and to monitor and measure. In fact, the added scrutiny forestry projects faced for the past ten years has advanced their baseline, additionality, leakage, permanence and measurement methodologies faster and more conservatively than other sectors. In terms of being easy to understand, unlike carbon below ground (coal, oil gas), or industrial processes (HFC destruction, methane landfill capture), people can have a relationship with carbon maintained in terrestrial ecosystems. They can know where it is, watch it, and account for unexpected changes should they occur. New tools such as Google Earth are making *distant* carbon in *distant* tropical forests ever more tangible and relevant.
  - 5) “***Minimize transaction costs...***” ARB can implement low-transaction costs offsets, possibly even more so than development of new methodologies and standards, by making use of pre-existing (voluntary and regulatory) standards for offsets. Numerous peer-reviewed, broad stakeholder initiatives have created high-quality offset standards with rigorous quality assurance levels (including for leakage –see below, permanence, and monitoring). These standards include the California Climate Action Registry Forest Project Protocol, the forthcoming Voluntary Carbon Standard, the Climate, Community & Biodiversity Standards, and the WRI/WBCS GHG Project Protocol for Land Use.
  - 6) “***Minimize the potential for leakage***”. Leakage is not unique to forestry projects, although forestry offsets face intense scrutiny on the subject. (For details on leakage in the energy sector, please view the literature of the Khazzoom-Brookes postulate). Given the past scrutiny of leakage in forestry projects, numerous measures and tools have been developed to address leakage, including leakage contracts, buffering, off-site monitoring, and integrated project development (designing forestry projects to promote conservation, restoration, sustainable plantations, etc). These tool minimize both economic and activity-displacement

leakage by estimating leakage, subtracting possible leakage from project account, directly addressing drivers of leakage and monitoring.

- 7) ***“Include as many sources as possible...and encourage participation beyond capped sources”***. Conserving tropical forests satisfies this principle.
- 8) ***“Appropriate incentives for early action...”***. Looking across all sectors, forestry dominates near-term, low-cost emission reductions. For more details, please see Chapter 25 of the Stern Report and the IPCC WG III, which states in its summary for policy makers, “Reduced deforestation and degradation is the forest mitigation option with the largest and most immediate carbon stock impact in the short term, per hectare and per year globally.”
- 9) ***“Stimulate investment and reward innovation.”*** There is a tremendous amount of innovation around forests and carbon markets in developing countries, as is evidence by several recent public, private and mixed funds and initiatives. For details, please see the G8 declaration on reducing emissions from deforestation,, the rapid support for the World Bank’s proposed \$250 million Forest Carbon Partnership Facility (FCPF) and the Australian government’s announcement of \$200 Australian million for combating deforestation in developing countries.
- 10) ***“Inspire other states, the federal government and other countries to take action...and build upon existing international programs.”*** Offsets from forestry in developing countries will be consistent with other regional players (such as The Oregon Standard and the Climate Trust’s pre-existing work with forestry offsets). By allowing forest offsets from outside its borders California will help lead and shape the integrity of parallel processes underway with the UNFCCC negotiations, notably on the politically important issue of reducing emissions from deforestation in developing countries”, the so-called REDD initiative.

A California cap-and-trade program that allows fungible credits derived from tropical forest conservation and restoration will build popular and political support for AB 32 implementation. “Saving Rainforests” has long been a popular issue, even more broadly supported as a popular concern both in developed and developing nations. Although at the technical level of this committee’s work, forestry is often a sector much-maligned, in the general population, helping culturally and biologically diverse forest communities prosper is as American as apple pie and rock ‘n roll. In fact, a substantial number of rock ‘n roll guitars come from tropical hardwoods, notably ebonies and rosewoods.

Finally, from an environmental justice perspective, sustainable forest offsets from outside California will bring benefits to some of the communities most damaged by California’s contribution to global warming.

Thank you for the opportunity to provide these views.

John O Niles  
Director